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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 002023

SIPDIS

DEPT PLEASE PASS TO SA/INS, SA/RA, USAID FOR BERNADETTE
BUNDY - ANE/SA; TREASURY FOR DEBRA VON KOCH AND ROY ADKINS;
USTR FOR AUSTR WILLS; COMMERCE FOR ARIADNE BENAISSA

E.O. 12958: DECL: 11/24/13

TAGS: [ECON](#) [EFIN](#) [EAID](#) [PREL](#) [CE](#) [ECONOMICS](#)

SUBJECT: AMBASSADOR'S COURTESY CALL ON CENTRAL BANK
GOVERNOR JAYAWARDENA

1. (U) Classified by Ambassador Jeffrey J. Lunstead.
Reasons 1.5 d and e.

2. (SBU) Summary: During his initial courtesy call with Central Bank Governor Jayawardena on November 20, the Ambassador discussed the current political situation, regional economies, US Treasury Department assistance and the recent GSL budget. Jayawardena was optimistic on the outcome of the ongoing political dialogue. He saw Sri Lanka's role as a regional economic hub as potentially viable and was enthusiastic about upcoming US Treasury Advisor assistance. He saw the recent GSL budget submission as a step in the right direction, but cautioned that continued deficit reduction was key. End Summary

Politics: "Getting this Boy and Girl Together"

3. (C) Ambassador paid an initial courtesy call on Central Bank Governor A.S. Jayawardena on November 20. The Governor immediately brought up the current political climate, offering an assessment of the PM as pragmatic and flexible and the President as someone who acts on instinct - thus unpredictable. Getting "this boy and this girl together" was the main challenge facing Sri Lanka. He faulted the proportional representation electoral system as designed to thwart any party gaining a decent majority. On the economic front, he thought both sides could agree on the basics of economic policy, which might provide common ground to build on.

Regional Economies

4. (SBU) Jayawardena expressed satisfaction with India's emerging economic prowess, noting it was no longer "fortress India." He thought the SAARC Finance group provided a useful working-level forum to build relationships and deal with ongoing problems.

5. (SBU) Economically, the region's psychology needed to change. Sri Lanka was the first to do so in 1977, when it introduced free-market reforms. At that time, Indian PM Rajiv Gandhi questioned Sri Lanka's wisdom and predicted it would be bankrupt in five years. India later was forced to adopt similar measures "to keep from going bankrupt." On Pakistan Jayawardena expressed concern about his perception that only fear of India holds Pakistan together.

US Treasury Advisor Programs

6. (U) The Ambassador thanked Jayawardena for his support of the US Treasury Advisor program and noted that the Debt Management TA and a Treasury Anti-Money Laundering team would arrive in early 2004. Jayawardena was appreciative of the US assistance. On the debt management front, he reiterated his view that the Public Debt Management Office needed to be truly independent and not beholden to the Central Bank or the Treasury.

7. (C) On money laundering, Jayawardena acknowledged it was a key area for improvement if Sri Lanka hoped to become a regional financial hub. Sri Lanka lacked an appropriate legal framework however, and necessary new legislation was awaiting clearance at the Justice Ministry. The Ambassador offered to weigh in with the Justice Minister if necessary to get the anti-money laundering legislation moving. Jayawardena said banks were using the "know your customer" rule in the interim. He urged all bankers to carefully analyze their accounts and understand the origins of deposits. Jayawardena then listed several fraud cases the GSL has dealt with in the recent past. He was considering some public outreach to educate people about scams such as the "Nigerian Oil letter" and pyramid schemes.

GSL Budget Submission

8. (SBU) The Governor said the recent budget proposal by the GSL was sound. In order to build confidence, the GSL hoped to keep chipping away at the deficit. Sri Lanka hopes to seek a sovereign credit rating in the next year. He intends to pursue this as long as the GSL understands the need to act responsibly and realizes the consequences

of "speaking out of turn." He saw one area of concern with regard to the sovereign rating - how to manage significant short-term capital inflows and control capital flight. He has urged the Board of Investment to target investment that could be absorbed quickly and that would be long-term in nature. The Ambassador noted the need to maintain political stability and move forward on the peace process in order to give investors confidence in the country and where it was going.

LUNSTEAD